

## Invest Direct

### Summary

A terrible human tragedy, Hurricane Katrina also blew natural gas price higher for an immediate 19% increase in estimated next twelve months (NTM) distributions for seven income stocks compared to three weeks ago. Distribution yield increased to 11.2% a year while stock price advanced 9%. Investors in royalty trusts have direct participation in commodity price that we take from the futures market for our projection. There is a two to three month time lag before recent natural gas and oil price increases have their dramatic effect. Though commodity price is volatile, serious hurricane damage has an effect on markets that is likely to persist through the coming winter. Nor is natural gas price high with the ratio of crude oil price to natural gas at 6.2:1 for the next year compared to competitive value of 5:1.

### Current Income

Stocks in the “account” are ranked by income expectation. The 12 Month Futures Strip prices summarize the prices used to estimate Next Twelve Months Distribution.

### U.S. Natural Gas and Oil Royalty Trusts

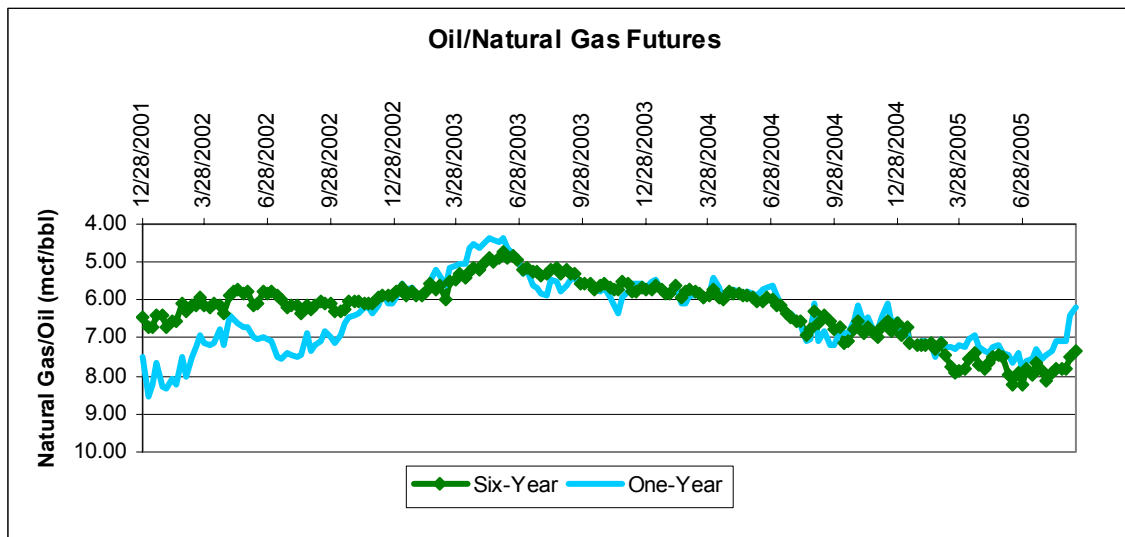
#### The Account

	<i>Symbol</i>	<i>Price (\$/un) 8-Sep 2005</i>	<i>Units</i>	<i>Market Value (\$)</i>	<i>Next Twelve Months Distrib. (\$/un)</i>	<i>NTM Distrib. Yield (%/yr)</i>
Sabine Royalty Trust	SBR	48.50	400	19,400	4.90	10.1
San Juan Basin Royalty Trust	SJT	45.14	500	22,570	4.67	10.4
Cross Timbers Royalty Trust	CRT	45.01	400	18,004	4.73	10.5
Hugoton Royalty Trust	HGT	36.26	500	18,130	4.12	11.4
Dorchester Minerals, L.P.	DMLP	28.00	700	19,600	3.30	11.8
Mesa Royalty Trust	MTR	68.50	200	13,700	8.15	11.9
Permian Basin Royalty Trust	PBT	15.40	1,200	18,480	1.95	12.7
	<i>Total</i>			<i>129,884</i>		<i>11.2</i>
Futures Strip						
12 Month - Oil (\$/bbl)		66.37				
12 Month - Natural Gas (\$/mmbtu)		10.68				
72 Month - Oil (\$/bbl)		62.73				
72 Month - Natural Gas (\$/mmbtu)		8.54				

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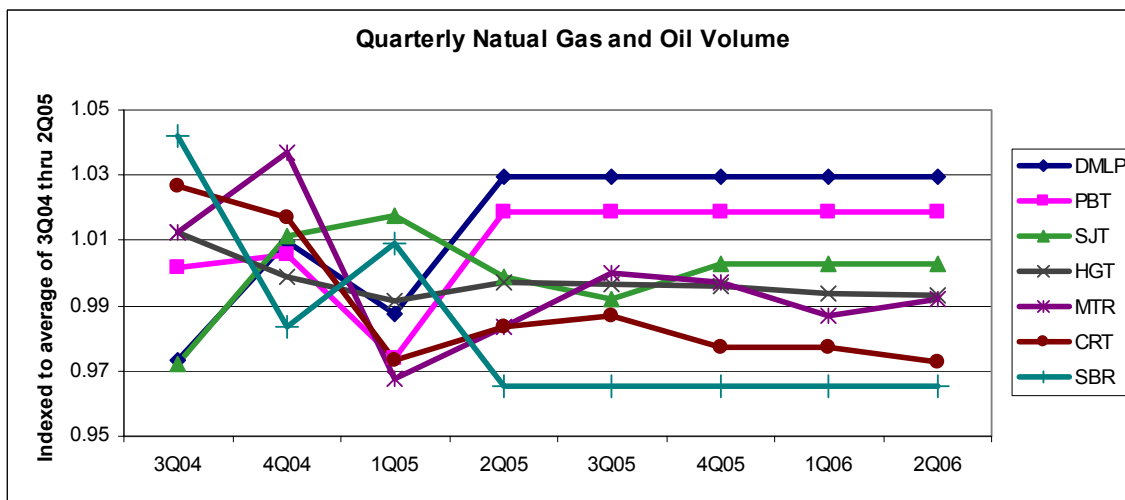
**Natural Gas Price Potential**

The seven income stocks are concentrated a median 78% on natural gas, the commodity with potential appreciation relative to oil. In a cold winter or on a regular basis in a cleaner energy economy, natural gas may be priced at the oil price divided by 5.



**Future Volume**

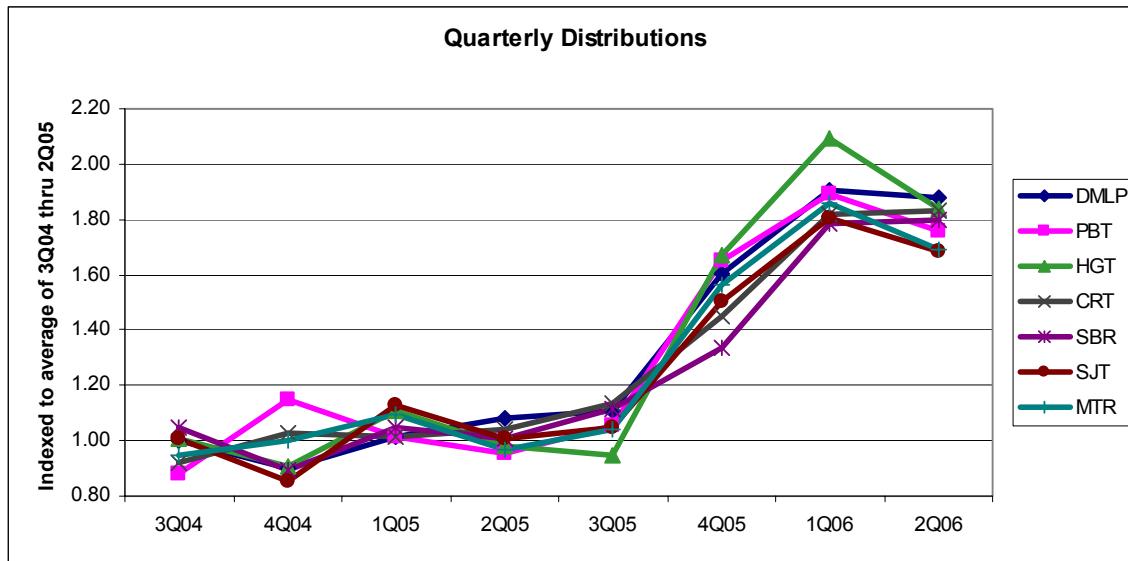
Projected volume falls within about 3% of the actual rate of production for the past four quarters. Though volume can be a critical long-term factor, the indicators are not as obvious as futures prices.



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**Future Distributions**

Projected distributions for the first quarter next year are more than 80% higher than for the quarter just ended.



**Valuation Rank**

The rank by McDep Ratio attempts to highlight the stocks that may be more or less recognized for their identifiable potential. The order is descending to suggest that stocks near the bottom have a chance to move up.

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	Symbol	Price (\$/sh) 8-Sep 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	EV/Ebitda NTM	McDep Ratio
Sabine Royalty Trust	SBR	48.50	14.6	710	40.00	9.9	1.21
San Juan Basin Royalty Trust	SJT	45.14	46.6	2,100	40.00	9.0	1.13
Dorchester Minerals, L.P.	DMLP	28.00	28.2	790	26.00	8.2	1.08
Hugoton Royalty Trust (46%)	HGT	36.26	18.4	670	34.00	7.4	1.07
Permian Basin RT (57%)	PBT	15.40	26.6	410	15.00	7.5	1.03
Cross Timbers Royalty Trust	CRT	45.01	6.0	270	45.00	9.4	1.00
Mesa Royalty Trust	MTR	68.50	1.9	130	75.00	7.9	0.92
<i>Total or Median</i>				5,100		8.2	1.07

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## Factors Influencing Present Value

The McDep Ratio depends on estimated present value. Reserves listed may be higher than reported numbers. Concentration on natural gas, reserve life and revenue royalty influence the multiple of present value to cash flow, PV/Ebitda. Trusts with a revenue royalty get a free ride on capital expenditures by others and may have cash flow that is less volatile.

### Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Total Present Value (\$mm)</i>	<i>Unit Present Value (\$/mcf)</i>	<i>Reserves (bcf)</i>	<i>Natural Gas/Ebitda (%)</i>	<i>Adjusted Reserves/Production NTM</i>	<i>Revenue Royalty (%)</i>	<i>PV/Ebitda</i>
Cross Timbers Royalty Trust	CRT	270	3.90	69	75	20.0	85	9.4
Mesa Royalty Trust	MTR	140	3.15	44	80	20.0	-	8.6
Sabine Royalty Trust	SBR	583	4.70	124	64	11.9	100	8.2
San Juan Basin Royalty Trust	SJT	1,864	3.58	521	99	11.9	-	8.0
Dorchester Minerals, L.P.	DMLP	734	4.47	164	80	12.6	54	7.6
Permian Basin RT (57%)	PBT	399	2.90	137	46	15.3	30	7.3
Hugoton Royalty Trust (46%)	HGT	626	3.70	169	93	13.8	-	6.9
<i>Total or Median</i>		4,616		1,229	80	13.8		8.0

Kurt H. Wulff, CFA

### Index of Recent U.S. Royalty Trust Research

#### Single Trust Analyses

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
18-Aug	SJT	San Juan Basin Royalty Trust	Sharp Stock Price Drop
20-Jul	* MTR	Mesa Royalty Trust	Improved Distribution Declared
13-May	* DMLP	Dorchester Minerals, L.P.	Royalty Volume Increasing
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger

#### U.S. Natural Gas Royalty Trusts - A Weekly Analysis

9-Sep		Invest Direct
19-Aug	*	Supply Creation
12-Aug	*	\$50 SJT
5-Aug	*	Raise Present Value for \$50 Oil
29-Jul	*	PBT Deal
22-Jul	*	Renminbi Revalued
15-Jul	*	Sakhalin Saga

\* Archived on [www.mcdep.com](http://www.mcdep.com)

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